Brinco LIMITED

ANNUAL REPORT 1977

Directors and Officers

George Baker,
Victoria, British Columbia

E. Jacques Courtois, Q.C.,
Montreal, Quebec
Partner,
Courtois, Clarkson,
Parsons & Tétrault

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Mississauga, Ontario
President and
Chief Executive Officer,
Brinco Limited

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Montreal, Quebec
Chairman and
Chief Executive Officer,
Power Corporation
of Canada, Limited

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Bethlehem, Pa.
Chairman,
Bethlehem Steel Corporation

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Chief Executive Officer,
Sidbec-Dosco Limited

* Sam Harris,
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Partner,
Fried, Frank, Harris,
Shriver & Jacobson

Ryuta Kawasaki,
New York, N.Y.
Executive Vice-President,
Marubeni Corporation

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Partner,
McCarthy & McCarthy

Edmund L. de Rothschild, T.D.,
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President,
N. M. Rothschild & Sons Limited

Harold L. Snyder,
St. John's, Newfoundland
Director,
Centre for Cold Ocean
Resources Engineering

* Sir Mark Turner,
London, England
Chairman and
Chief Executive,
The Rio Tinto-Zinc
Corporation Limited

* Member of the Executive
Committee

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Chairman

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Vice-President

N. M. Peters,
Vice-President and
General Counsel

J. P. Rixon, C.A.,
Vice-President,
Chief Financial Officer
and Treasurer

J. J. Goodchild, C.A.,
Comptroller

P. F. McDonald,
Secretary

Registered Office:
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Water Street,
St. John's, Newfoundland
A1C 5J9

Executive Office:
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Mississauga, Ontario
L5B 2S8

Registrar and Transfer Agent:
The Royal Trust Company,
St. John's, Newfoundland;
Montreal, Quebec;
Toronto, Ontario

Shares Listed:
Montreal Stock Exchange
The Toronto Stock Exchange

Report to the Shareholders

Donald R. De Laporte

Feasibility and exploration programs highlighted Brinco's operations in 1977, and reflected the emphasis on mineral development which has characterized the Company's outlook in recent years. Although the results have been mixed, these activities have helped to achieve a clearer definition of future priorities and directions.

There appears to be a growing tendency on the part of the world's industrial nations to live with reduced rates of economic growth. One result of this trend has been a pronounced cut-back in the consumption of many primary materials, which has created serious imbalances in supply and demand, and much uncertainty as to price levels. Planning the Company's progress must take these changing conditions into account, and care and precision are more important than ever in defining the areas of resource development which are likely to be most rewarding.

Labrador Uranium

The Labrador uranium project being investigated by the Company's subsidiary, British Newfoundland Exploration Limited ("Brinex"), and Urangesellschaft Canada Limited ("Urangesellschaft"), under joint venture arrangements, was the object of concentrated effort. The technical feasibility study, which was begun in the summer of 1976, was completed last April. The study centered on a base case concept which involved the mining of both the Kitts and Michelin deposits, with a concentrator located at Michelin. As part of the study, several variants of the base case concept were also examined and documented.

It was concluded from the study and subsequent economic evaluations that implementation of the base case concept, requiring a very large investment, would only be justified if firm contracts for output could be arranged on terms which would ensure an acceptable rate of return on investment. Alternative concepts on a reduced scale, including the mining of the Kitts deposit alone, are now being examined. Work continued during the year towards preparation of an environmental impact statement, in close co-operation with the relevant departments and agencies of the Governments of Canada and Newfoundland and Labrador.

Field crews again carried out extensive exploration in the joint venture concession areas during the summer months. The Burnt Lake prospect located approximately 14 miles east of Michelin was examined in greater detail, and limited drilling returned interesting uranium values in a relatively complex geological setting. Work planned for the forthcoming season will emphasize mapping and evaluation, and will study the geological relationship between the Michelin and Burnt Lake areas.

Abitibi Asbestos Mining Company Limited

During the past year, Abitibi Asbestos Mining Company Limited ("Abitibi"), owned 60% by Brinco, carried on discussions with the Department of Natural Resources of Quebec, relating to possible participation by the Government of Quebec in the development of Abitibi's asbestos deposit located near Amos, Quebec.

During October, the Government put forth new proposals relating to the asbestos industry. These proposals emphasized the Government's intention

to stimulate increased processing of asbestos in Quebec. In addition, the Government disclosed its intention to participate in primary production through the purchase of a major producer. Abitibi was subsequently advised that the Government was interested in renewing discussions and preliminary talks have been held.

Union Holdings Incorporated

Brinco's wholly-owned United States subsidiary, Union Holdings Incorporated ("Union"), is a participant in a joint venture covering the development of a lead-zinc deposit 90 miles northwest of Spokane in the State of Washington. Sensitivity studies on the feasibility of the project have been completed, but the current outlook for lead and zinc prices is not encouraging, and further work has been deferred.

Union's participation in a joint venture exploring for uranium in the southern United States is under review; results to date, although interesting, suggest a longer time frame and more expenditure than originally anticipated.

Exploration in Canada

In the Yukon, the Ogilvie Joint Venture, in which Brinex is the major partner with a 48% interest, continued exploration on the Jason properties. Diamond drilling has now extended the known zone of lead-zinc mineralization over a strike length of 2,900 feet, and to a depth in excess of 500 feet. An attempt to complete a deep hole in the area by rotary drilling was unsuccessful. Next summer, additional diamond drilling will test the lateral and internal continuity of the known mineralization, while new targets will also be tested by diamond drilling.

Other lead-zinc prospects in the Yukon and British Columbia are being examined through participation in joint venture programs. In Ontario, airborne surveys carried out by Brinex resulted in the staking of several base metals prospects.

In addition to the activities of the Brinex/Urangesellschaft joint venture, other uranium possibilities have been examined in Labrador, Saskatchewan and British Columbia.

Main camp, Ogilvie Joint Venture, South MacMillan River, the Yukon Territory.

Exploration crew, Burnt Lake area, Labrador.

Brinex holds a 19% interest in a joint venture with Rio Tinto Canadian Exploration Ltd. covering a gold prospect in the Port aux Basques area of Newfoundland, where interesting gold values have been intersected in several drill holes over a strike length of approximately 400 feet in two zones.

Coseka Resources Limited

The Series "B" Convertible Debenture of Coseka Resources Limited ("Coseka") in the amount of $3,500,000 was converted last August, thus increasing Brinco's interest to 29.4%. In February of 1978, Coseka acquired Taiga Resources Ltd., of Calgary, through the issuance of treasury shares, and as a result, Brinco's interest in Coseka has been reduced to approximately 25%.

Results for Coseka's year ended July 31, 1977 showed a substantial increase in revenues and net earnings. Although the greater portion of income is derived from operations in Western Canada, Coseka has been expanding its exploration and acquisition activities in the United States, particularly in Louisiana, Texas and Wyoming. The acquisition of Taiga will give Coseka exposure in Colorado, Utah, Montana and Oklahoma.

Financial Results

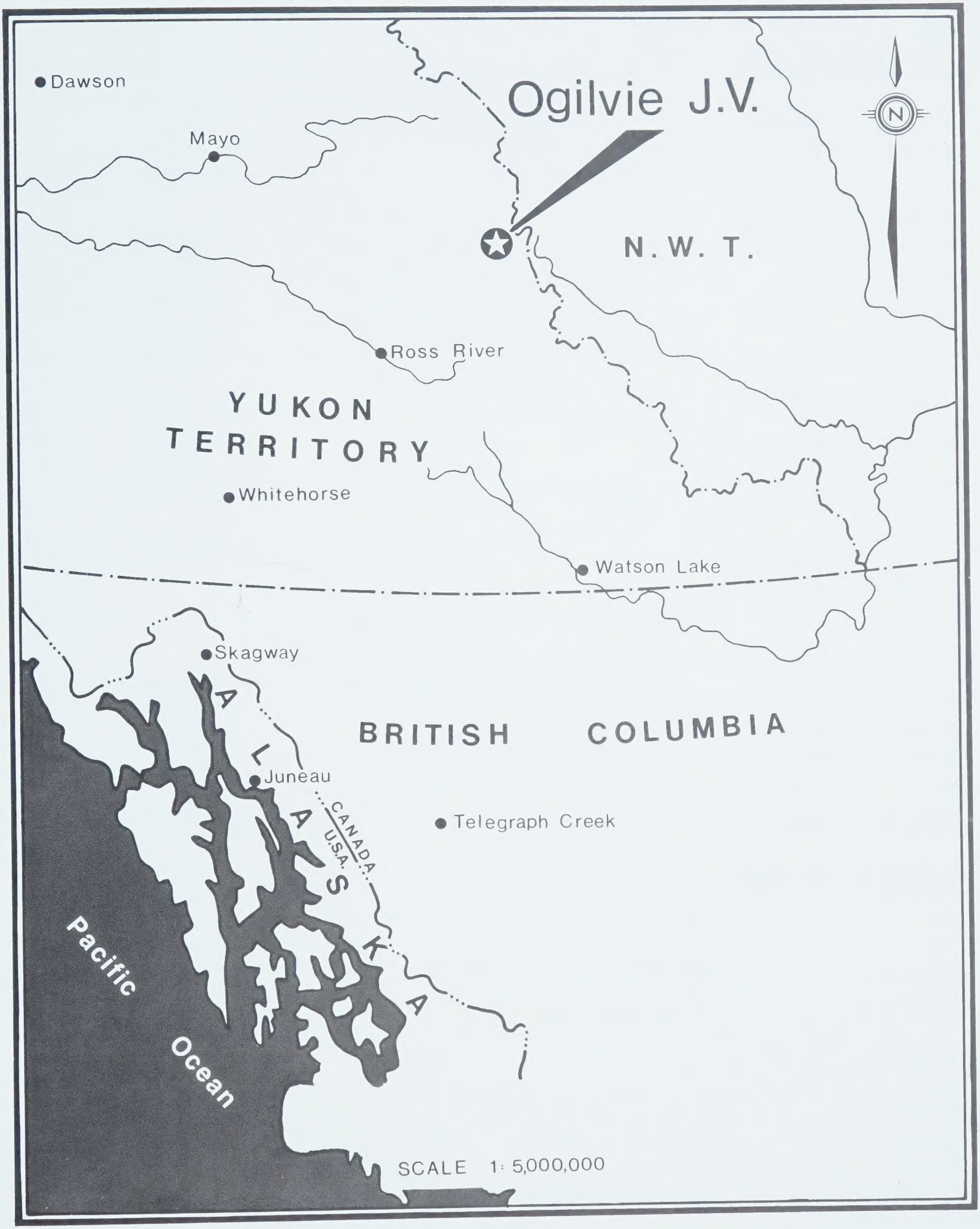
Brinco's consolidated net loss for the year ended December 31, 1977, was $681,000, compared to net earnings of $455,000 for 1976. The loss is primarily attributable to a decline in investment income and to expenses incurred in relocating the Company's executive offices in Mississauga. This relocation, accompanied by a marked reduction in staff, should significantly reduce operating costs in 1978.

Working capital at year-end decreased to $47,049,000 from $52,525,000 at the end of 1976, due in large part to expenditures of $3,477,000 on the Labrador uranium project.

Mark Turner
Chairman

Donald R. De Laporte
President and Chief Executive Officer

February 23, 1978.


Ogilvie J.V.
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Brinco LIMITED and subsidiaries

Consolidated Balance Sheet

as at December 31, 1977
(with comparative figures for 1976)

ASSETS	1977	1976
Current assets:		
Cash and short-term deposits	**$ 46,851,000**	$ 52,670,000
Accrued interest	**412,000**	1,238,000
Accounts receivable	**1,683,000**	463,000
Supplies and prepaid expenses	**223,000**	189,000
Total current assets	**49,169,000**	54,560,000
Investments:		
Coseka Resources Limited (note 2)	**7,704,000**	7,121,000
Other (note 3)	**165,000**	210,000
Total investments	**7,869,000**	7,331,000
Long term advances (note 4)	**438,000**	—
Fixed assets (note 5)	**517,000**	450,000
Expenditures on projects: (note 6)		
Abitibi asbestos	**13,174,000**	13,006,000
Labrador uranium	**6,571,000**	3,094,000
Other	**113,000**	42,000
Total expenditures on projects	**19,858,000**	16,142,000
	$ 77,851,000	$ 78,483,000

LIABILITIES AND SHAREHOLDERS' EQUITY	1977	1976
Current liabilities:		
Accounts payable and accrued liabilities	**$ 2,120,000**	$ 2,035,000
Deferred income taxes	**980,000**	980,000
Minority interest in subsidiary company	**3,437,000**	3,473,000
Shareholders' equity (note 7)	**71,314,000**	71,995,000
	$ 77,851,000	$ 78,483,000

On behalf of the Board:

Donald R. De Laporte, Director

E. Jacques Courtois, Director

See accompanying notes.

Consolidated Statement of Earnings and Retained Earnings

year ended December 31, 1977
(with comparative figures for 1976)

	1977	1976
Income:		
Income from short-term deposits	$ 3,771,000	$ 5,181,000
Income from debentures of Coseka Resources Limited	179,000	361,000
	3,950,000	5,542,000
Expenses:		
Administrative (note 8)	2,676,000	1,799,000
Depreciation and amortization	166,000	135,000
Project expenditures written off	—	284,000
Exploration expenditures and other costs related to natural resources — net (note 9)	2,036,000	2,297,000
Provision for loss in value of investments (note 3)	—	128,000
	4,878,000	4,643,000
Earnings (loss) before items set out separately below	(928,000)	899,000
Income taxes	30,000	767,000
	(958,000)	132,000
Equity in net income of Coseka Resources Limited (note 2)	200,000	—
	(758,000)	132,000
Extraordinary item:		
Reduction in income taxes due to utilization of exploration and other costs expensed in prior years	30,000	257,000
	(728,000)	389,000
Minority interest in loss of subsidiary	47,000	66,000
Net earnings (loss) (note 10)	(681,000)	455,000
Retained earnings at beginning of year	66,552,000	66,097,000
Retained earnings at end of year	$ 65,871,000	$ 66,552,000

See accompanying notes.

Brinco LIMITED and subsidiaries

Consolidated Statement of Changes in Financial Position

year ended December 31, 1977
(with comparative figures for 1976)

	1977	1976
Source of funds:		
Net earnings before extraordinary item	$ —	$ 132,000
Items not affecting working capital during the year:		
Depreciation and amortization	—	135,000
Deferred income taxes	—	767,000
Provision for loss in value of investments	—	128,000
Project expenditures written off	—	284,000
Funds provided by operations	—	1,446,000
Proceeds from sale of investments	**39,000**	212,000
Total funds provided	**39,000**	1,658,000
Use of funds:		
Net loss before equity in net income of Coseka Resources Limited and extraordinary item	**958,000**	—
Items not affecting working capital during the year:		
Loss on disposal of fixed assets	**111,000**	—
Depreciation and amortization	**166,000**	—
Deferred income taxes	**30,000**	—
Other	**5,000**	—
Funds used in operations	**646,000**	—
Project expenditures:		
Abitibi asbestos	**154,000**	519,000
Labrador uranium	**3,477,000**	3,094,000
Other	**71,000**	25,000
Investment in shares of Coseka Resources Limited	**383,000**	—
Long term advances	**438,000**	—
Purchase of fixed assets — net	**346,000**	—
Other items — net	—	181,000
Total funds used	**5,515,000**	3,819,000
Decrease in working capital	**5,476,000**	2,161,000
Working capital at beginning of year	**52,525,000**	54,686,000
Working capital at end of year	**$ 47,049,000**	$ 52,525,000

See accompanying notes.

Notes to the Consolidated Financial Statements
as at December 31, 1977

1. Summary of Significant Accounting Policies:

The financial statements have been prepared following accounting principles generally accepted in Canada.

The principal accounting policies of the Company and its subsidiaries are summarized hereunder.

Basis of Consolidation:

The consolidated financial statements include the accounts of the Company and all its subsidiary companies. The active subsidiaries and the Company's ownership therein are as follows:

	Ownership
British Newfoundland Exploration Limited	100%
Union Holdings Incorporated	100%
Abitibi Asbestos Mining Company Limited	60%

Investments in Other Companies:

Investments in other companies are carried at cost, less amounts written off where appropriate, until such time as the holdings are deemed to enable the Company to exercise significant influence whereupon the equity method of accounting for the investment is adopted.

Exploration and Project Expenditures:

Exploration expenditures and costs related to the investigation of possible investments in natural resources are charged to income as incurred, net of recoveries from joint venture partners. Project expenditures, net of recoveries from partners, are carried forward as assets so long as the projects are considered to be of value. The costs of such projects are written off in the event of abandonment or are subject to depreciation and amortization when the projects are put into operation.

Depreciation and Amortization:

Depreciation of fixed assets and leasehold improvements is provided generally on the straight line basis over the estimated service lives of the assets or terms of the leases. The costs of fixed assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts and the resulting gain or loss reflected in income or project costs as appropriate.

Income Taxes:

Tax allocation procedures are followed, except that no recognition is given in the accounts to the possible future tax reduction which may be realized through the deduction in determining taxable income in future years of unclaimed amounts of depreciation, exploration and preproduction expenditures and losses available for carryforward. The reduction in income taxes resulting from the application of such unclaimed deductions and losses carried forward is reflected as an extraordinary item in the years in which the tax reduction is realized.

Foreign Exchange:

Current assets and liabilities arising in currencies other than Canadian dollars are translated at exchange rates in effect at balance sheet dates; all other assets, liabilities, revenues and expenses are translated at rates in effect at dates of transactions. Any gain or loss on exchange resulting from conversion or translation of foreign currency balances is reflected in the consolidated statement of earnings.

2. Investment in Coseka Resources Limited:

	1977	1976
2,565,649 Common shares (1976 — 1,272,728) at cost	**$7,348,000**	$3,500,000
$3,500,000 8% Convertible Debenture Series "B" due July 1979	—	3,500,000
Acquisition costs	**156,000**	121,000
Company's share of net income	**200,000**	—
	$7,704,000	$7,121,000

In August 1977, the Company converted the Series "B" debenture into 1,166,667 common shares of Coseka at $3.00 per share thereby increasing its interest in Coseka to 29.4% whereupon the equity method of accounting was adopted. Included in the carrying value of the investment is $2,037,000 of excess cost of shares over equity in net assets of Coseka, which is being amortized over a forty-year period by charges against the Company's share of Coseka's net income.

The quoted market value of the investment in common shares of Coseka as at December 31, 1977 was $21,167,000 ($8.25 per share) and as at December 31, 1976 was $5,664,000 ($4.45 per share).

The Company has a right until 1982 to participate in any equity financing by Coseka.

Subsequent to December 31, 1977 Coseka issued additional treasury shares and, as a result, the Company's percentage ownership was reduced to 25.4%.

3. Other Investments:

	1977	1976
Investments, at cost	**$294,000**	$488,000
Provision for loss in value	**129,000**	278,000
	$165,000	$210,000
Quoted market value	**$ 55,000**	$110,000

4. Long Term Advances:

The advances are employee housing assistance loans including amounts due from officers amounting to $159,000.

5. Fixed Assets:

	1977	1976
Buildings and equipment, at cost	**$ 949,000**	$1,000,000
Leasehold improvements, at cost	**418,000**	259,000
	1,367,000	1,259,000
Accumulated depreciation and amortization	**854,000**	813,000
	513,000	446,000
Land, at cost	**4,000**	4,000
	$ 517,000	$ 450,000

6. Expenditures on Projects:

Abitibi Asbestos:

At March 1, 1976, the date of the latest estimate, the amount of all new funds that would be required to bring Abitibi's "A" asbestos deposit into commercial production, with an output of up to 220,000 tons of asbestos fibre per year, was in the order of $300 million. During 1977 Abitibi had preliminary discussions with the Government of the Province of Quebec and a major asbestos producer concerning the possibility of their participation in development of the deposit.

Labrador Uranium:

The expenditures on the Labrador uranium project are net of recoveries from a partner.

7. Shareholders' Equity:

	1977	1976
Capital stock	**$ 75,953,000**	$ 75,953,000
Retained earnings	**65,871,000**	66,552,000
	141,824,000	142,505,000
Less cost of common shares purchased pursuant to the 1974 tender offer to shareholders	**70,510,000**	70,510,000
	$ 71,314,000	$ 71,995,000

(a) Common shares without nominal or par value authorized, issued and outstanding at December 31, were:

	1977	1976
Authorized	**35,000,000**	35,000,000
Issued and fully paid	**24,609,485**	24,609,485
Less held in treasury	**9,973,067**	9,973,067
	14,636,418	14,636,418

(b) Under the Company's 1975 stock option plan, 200,000 common shares have been set aside for issuance. At December 31, 1977 options were outstanding on 68,500 shares (including 33,500 to officers) at $4 per share exercisable until September 1, 1981 and 131,500 shares were available for issue. No options were granted in 1977.

8. Administrative expenses:

Administrative expenses include costs of $908,000 associated with the relocation of the Companies' corporate offices in 1977.

9. Exploration Expenditures:

Exploration expenditures are net of recoveries from joint venture partners of $1,357,000 (1976 — $554,000).

10. Earnings (Loss) per Share:

	1977	1976
Net earnings (loss) per share before extraordinary item	**(4.9¢)**	1.4¢
Extraordinary item: Reduction in income taxes	**.2¢**	1.7¢
Net earnings (loss) per share for the year	**(4.7¢)**	3.1¢

The calculation of net earnings (loss) per share has been made using the weighted average number of common shares outstanding, less shares held in treasury, during the respective years. There would be no material dilution of net earnings per share if the outstanding stock options were exercised.

11. Commitments:

(a) In 1953, the Government of Newfoundland and the Company entered into an agreement (the "Principal Agreement") whereby the Company was granted options on extensive natural resource concessions within the Province of Newfoundland. Under the terms of the Principal Agreement, as amended, the Company is obligated to pay the Government of Newfoundland an annual rental equal to 8% of the consolidated net profits before income taxes (as defined) of the Company and its subsidiary companies resulting from the operations of the concessions and rights retained under the Principal Agreement.

(b) The Company leases office accommodation under a lease expiring in 1987 with annual rental payments of $175,000.

12. Income Taxes:

For income tax purposes, the Company and its subsidiaries claim as deductions, depreciation and exploration and development expenditures sufficient to offset income which would otherwise be taxable. As at December 31, 1977 depreciation and amounts written off since the commencement of operations exceed allowances claimed for tax purposes by $14,700,000. Also, the Company and its subsidiaries have unclaimed earned depletion allowances of $8,700,000 which are available for offset against future resource profits.

In addition, the Company and its subsidiaries have business losses of approximately $2,300,000 and capital losses of approximately $2,000,000 carried forward for income tax purposes.

13. Remuneration of directors and senior officers:

The aggregate direct remuneration paid or payable for the year by the Company and its subsidiaries to the directors and senior officers amounted to $522,000 ($545,000 in 1976).

14. Anti-Inflation Legislation:

The Company is subject to anti-inflation legislation.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Brinco Limited as at December 31, 1977 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.,
Chartered Accountants

Mississauga, Canada.
February 23, 1978

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